ries separated in 1950, and, in consequence, Syria regained free- 651
dom of action in directing her customs and economic policies and 648
in managing her economy on an independent basis.

11. The new Syrian government also had to face serious internal problems, that the Mandatory power with its "Laissez-faire" policy had not attempted to deal with. No factual study of the country was made nor any determined course of economic action undertaken. The following are the most serious of the defects of the economic system at that time :

First there was a lack of statistics and detailed studies upon 659
which to base a sound economic policy. Nor were there any technical and scientific studies of the country's economic resources, or plans for developing and exploiting them. Secondly, the bank- 453
ing system failed in meeting the country's need for agricultural 652
credit and for medium and long term credit. The majority of the banks were branches of foreign banks that specialized in commercial short-term credit operations, and which, with the exception of the Banque de Syrie et du Liban, avoided seasonal agricultural lending. All the banks operated without any control or direction. Furthermore, no bank had up to that date been established to deal with industrial or mortgage credit. There was only the Agricultural Bank, established by the government to deal with medium-term agricultural loans, but its regulations, staffing and limited means did not enable it to play a major role in meeting the needs of agriculture. Thirdly there was no money market that 454
could attract national savings and invest them in development projects. People with savings have always preferred to hoard them in the form of gold, or else they invested them in real estate. In addition, foreign capital avoided entry into the country because of restrictions on exchange, and other reasons.

12. During the period 1945 to 1953 the government made a 656
great effort to regulate the Syrian economy in the fields of trade,[1]

1 Legislative Decree No. 14 of December 18, 1951 and its amendments concern the regulation of the possession of, and trade in, raw materials and products. Legislative Decree No. 151, of March 3, 1952 and its amendments concern company law and the law governing firms established outside Syria. Legislative Decree No. 60, of January 13, 1952 and its amendments regulate foreign trade etc.

185 ginning in solving many problems of agriculture, industry, and trade. There is not enough space here to give details of their achievements; it is enough to say that, by continuous and widespread effort, the Syrian government was able to remove external problems and to clear away many of the internal obstacles and restrictions that hampered the country's progress. Thus they prepared the way for the emergence of a policy of economic development, and created many of the essential conditions for its success.

15. Leaving aside particular and secondary problems, we can diagnose Syria's major development problems as follows : National production is still far below capacity ; a large part of national resources and wealth are not yet exploited. Many large-scale projects must be undertaken before any increase in productivity can take place. Such projects are : irrigation, the draining of marshes and extension of cultivable land ; improvement of agricultural methods, utilization of modern machinery and combatting of plant diseases and pests ; exploitation of natural resources such as minerals and mines, and the generation of electric energy and motive power ; the improvement and increase of livestock by better water supplies, shelter and pasturage ; re-afforestation and the preservation of existing forests ; the construction of roads, bridges, ports and airports, and the supplying of means of transport to facilitate communications ; the completion of land surveys and settlement operations in all districts; the construction of general warehouses; the supplying of drinking water and electricity to rural areas. But, whereas the country's needs are great, her financial means are not 454 adequate to cover them. National savings are low in themselves, as we noted above ; people prefer hoarding gold or investing in 652 real estate. There is as yet no financial market in Syria. State finances are necessarily weak so long as they depend on a weak economy. Thus, neither the state nor private individuals can be expected to finance big development.

16. It follows from the above that the economic development of Syria depends on a solution to the following problem : the Syrian economy needs capital and finance projects that will create conditions favourable to its growth ; but, as a result of its weakness and underdevelopment, it lacks the necessary financial means. In other words, the state's financial capacity is small and cannot expand unless national production grows ; and national production cannot grow unless the state's financial capacity expands. How

652 present level. The proportion of current taxes (approximately LS
[651] 200 million) to the national income (approximately LS 1250 million) is 16 per cent. This ratio may seem small if compared with that of other countries, but we should not forget that the national income of Syria is in itself small. What the average tax-payer pays in taxes is cut from his essential expenditure, since his income is not appreciably in excess of his essential expenditure. There is little surplus that the government can reasonably take in the form of taxation.

However, though we cannot depend on taxes to finance development projects, we should not neglect the improvement of methods of tax imposition and collection, and the need for strict inspection in applying taxation laws. It is not improbable that such improvements and inspection may lead to a 15 per cent rise in collected taxes, (about LS 30 million). This could very well be used to cover the desired expansion in ordinary government expenditure and to contribute towards development projects.

In any case, development expenditure tends in the long run to increase national income, thus forming in its turn a new source of public revenue that should not be neglected by the government, particularly since a greater taxation effort is essential to absorb the surplus purchasing power created by development projects and to combat inflation.

454 37. As to internal loans, we have seen that there is no financial
652 market in Syria and that individuals do not embark on such a form of investment. Though we realize the difficulty of creating a financial market in a short period of time, yet we believe that it is possible at the present time to establish a money market, and that, with adequate measures, a financial market dealing with medium term loans could be set up in a relatively short time. Considering that private capital invested in national companies since 1944 has amounted to about LS 100 million, and that the capital invested in individual enterprises, whether industrial, commercial or agricultural, was more than twice the funds spent by the government on development projects, it becomes clear that the possibility of creating a financial market is not out of the question.

The creation of a financial market in Syria is an essential condition for the success of any development policy. Without a financial and money market the authorities concerned will not be able to direct credit affairs effectively, nor to manage monetary policy in the country. The benefits that such a market would bring would

justify the government in adopting measures such as the following: encouraging individuals to invest their funds in medium-term loans yielding relatively high interest and carrying certain guarantees and exemption from taxes; requiring establishments such as insurance companies, social institutions and those individuals who are asked to pay reserve deposits (such as accountants and contractors) to hold their funds in the form of government bonds: in addition, the government could impose certain restrictions upon the activities of certain industries such as building, so as to divert capital towards the financial market. It is not our intention to deal with all measures that could be taken to encourage the financial market in Syria, but merely to indicate both the possibility of creating such a market, and the necessity of its creation as a condition for the success of the development policy, through the power it gives to the government to manipulate credit policy.

38. Another source of finance is borrowing from the Bank of Issue. It is an easy method and attractive to governments, but it is fraught with dangers and pitfalls.

We do not believe that all borrowing from the Bank of Issue for the purpose of financing development projects is necessarily unwise; nor do we believe that it leads in all cases to inflation. The consequences that follow from this type of borrowing depend on the manner in which the loan is used, the economic conditions of the country, the position of the balance of payment and on several other factors.

An additional issue of paper currency for financing development projects can follow two channels: it can either flow abroad in payment for imports that are needed to implement the project, or it can be spent internally to meet local expenditure.

In the first case, paper bills are returned to the Bank of Issue to the same extent to which foreign currencies are drawn from it. Official foreign exchange and gold balances will be reduced, but the paper currency issued will have no impact on national income nor will it have any inflationary effect.

In the second case, the issued paper currency will lead to a rise in national income that may exceed the value of the issued paper. For part of the currency paper that reaches the workers and contractors of development projects will be transferred to other producers, thus giving them additional income and purchasing power, and so on continuously. Circulation of the newly issued paper

job. It is this mechanized farmer-investor who has produced the surplus wheat exportable from Jazirah. Any attempt to reduce his activity by limiting the area of land cultivated by him, or by artificially reducing the prices of his crops for the benefit of the State monopoly, or by ignoring his demands for low production costs, will result in his leaving the job for other occupations. It should be noted also that this type of farmer is in most cases not tied to the land. He usually rents the land he cultivates, and even if he owned land, it is only a small fraction of the area he plants annually. It is always easy for him to rent his lands to peasant farmers and go back to the city.

3. Estimate of a Capitalist Agricultural Enterprise and the Area it needs: A complete outfit of agricultural machinery belonging to a farmer in Jazirah usually consists of the following. A fifty horsepower tractor, a disc plow, a cultivator, a drill, a combine either tractor drawn or self-propelled, a jeep, a truck , and a regular repair shop for immediate repairs in the field. He will have a mechanic and two drivers on an annual basis. The number will rise to about ten during the plowing, seeding, and harvest seasons. This means an outlay of LS 100, 000 in capital to which is added LS 25,-000 for the price of seed, fuel, and miscellaneous expenses. To meet the depreciation on the machinery, cover the annual expenses and interest, and earn a profit, the farmer must plant as large an area of land as his equipment can handle. It is found that he has to plant some 5, 000 dunums annually or better still 6, 000 in order to find his occupation remunerative. To do this, he has to own or rent land double this area since all cultivation in Jazirah is on a two year rotation basis.

II. Irrigated Agriculture

The Encyclopedia Britannica relates that the region of Nisibin, i. e. Qamishli, was up to the eleventh century planted with fruit trees and that it lost its orchards due to forcible conversion to wheat imposed by the Caliph, as well as ravages by the Bedouin tribes.

Irrigation by pump started with the rice boom in 1945 and expanded with the cotton boom of 1951. It was hit severly by the crop failure of last year and the flood of this spring, and the future of the Khabur appears dim. This is because as previously mentioned, the original amount of capital used to construct a fair sized project is large, amounting to about LS 150-200 thousand. Such a project can irrigate with two 10-inch pumps or their equivalent about 2, 500 dunums of summer crops and double the area in wheat and barley. The project will have one main canal 1 1/2-3 1/3 meters higher than ground level made entirely of earth or lined with cement to carry the water a distance of 1-3 kilometers depending on the lay of the ground, several subsidisary canals, buildings for the motors, the agricultural machinery, and the laborers.

Evidently, in order to get the best returns on the capital invested, the farmer needs to exploit to the utmost the capacity of his pumps, otherwise he will be leaving his capital idle. In this case, he will need to cultivate, on a rotation basis, 2, 500 dunums of summer crops and 5, 000 dunums of wheat and barley. But on most of the irrigation projects of the size mentioned, the area of the lands which can be irrigated is less than 1, 500 dunums in all. The surrounding lands are all higher than the main leading canal and can not be reached except by a much greater outlay of capital. This means that the farmer has to extract from an area of 1, 500 dunums, of which one-third lies fallow every year, enough profit in five to eight years, which is the average duration of the lease, to compensate him for his yearly efforts, to pay interest on the capital and to regain his investment. This should mean a net annual profit of about 45, 000 LS or LS 45 per dunum, and experience has proved that it can not be done.

The alterntive to pump irrigation on the Khabur is irrigation by gravity in works similar to that of Tal Mughass. And the Khabur lends itself in many places to such project. Mr. Delbes, agricultural advisor to Syria during the French Mandate, knows at least of three projects studied by the French High Commissariat, to build dams and derivation canals between Ras el Ain and Hassakeh. The largest one among them is to carry the water west to the region of Jabal Abdel Aziz and irrigate a very large area.

Another dam site studied by the French is at Sab'Skour. Further south in the region of Fadghami a site was selected to store the

when the wheat crop fails, as it did last year, there is great hardship in all of the Jazirah. Debts remain largely unpaid, the value of land falls off sharply, and interest rates become unbearable

The failure of a crop in Jazirah brings more hardship than is the case in other Mohafazas because Jazirah, with all the money revenue which accrues to it in a good year, has not arrived yet at the stage where it can save a part of this income to use in bad years. All the money revenue is immediately reinvested in machinery and in expansion of the area planted with additonal sums borrowed from the banks or from Aleppo merchants.

The point is reached where further expansion has become difficult, and the situation will become more or less stabilized so that some of the income will be put aside for emergencies in the coming few years. But even when savings reach a high figure, the problem of monoculture is not solved.

Jazirah at present does not produce the necessary vegetables and fruit for its own consumption. It imports them from Aleppo, Homs and Damascus. That is why the cost of living in the town of the Jazirah is one of the highest in Syria. Aside from the price of meat and samneh, everything including room and house rents, is more expensive than in the other big towns of Syria. Even flour is sold to bakers by the town municipalities at the same price for which it is sold in Damascus.

In former times, however, Jazirah produced great amounts of fruit, vegetables and dairy products. Its lands are very well suited to raising cattle and beef, an employment more profitable than wheat growing. A diversification in the use of land will make for a more balanced and prosperous economy in Jazirah. But the Jazirah farmers are not to be blamed entirely for the kind of agriculture prevailing. Circumstances beyond their control, connected primarily with the problems of land ownership and tenure, have largely imposed this type of monoculture upon them. These problems will be discussed in the following section, but it can be said in passing that the farmer cannot be expected to invest money in buildings for cattle raising, or in digging wells to provide irrigation for vegetable growing, or in planting orchards on lands to which he has no title or whose title is subject to constant disputes over boundaries with the neighbors and lately by decree-law 96 with the State.

361 At present, agriculture extends in an unbroken line from the
311 Turkish and Iraqi borders south to the Rad and Hassaksh, and west to
365 Ras el Ain and midway to Rakka. Qamishli has all the amenities of a fair-sized city with sewage, electricity, asphalted roads, running water, places of amusement, and modern office buildings and houses. The other towns of Jazirah show similar progress but in a smaller way.

454 All this development could not have been achieved without extensive use of capital. It was stated that the original emigrants to Jazirah whether Christians or Kurds, brought very little capital with them. Whatever they have now was made in Jazirah and not brought from outside.

I. Credit to the Bedouin and Kurd

4521 The nearest commercial market to Jazirah where credit was
438 available was Aleppo. Aleppo merchants first provided goods shipped to the towns of Jazirah to be smuggled into Turkey. And Jazirah merchants working on a commission or partnership basis made good profits. Some of them specialized in lending money to the Bedouins and Kurds and for them, also, credit was available at Aleppo. They borrowed at an interest rate of 9% and lent at 35-50%. Most of them, however, did not lend money outright as a general practice, but sold goods and especially textiles, coffee and sugar to the farmer against bills maturing at harvest time. The exorbitant interest was added over the price of the goods, and the peasant accepted it as a somewhat higher price and did not consider it as interest. Theis system still prevails at the present time.

II. Credit to the Machinery Owner

4521 With the expansion of agriculture and the extensive use of agricultural machinery, credit in much larger amounts became necessary. The farmer using machinery needed two kinds of credit. He needed credit to pay for his machines, and seasonal credit to cover a part of his expenses for wages, seed, fuel, and general expenditures.

In the first years of the War, dealers in agricultural machinery supplied a part of the need by selling on an installment basis for a period of 20 months. But between 1943 and 1948 they demanded cash payment before delivery. In the last four years, they have renewed their credit facilities.

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454 Savings institutions are virtually non-existent. There are no special savings banks and the regular commercial banks do not consider it worth while to make a particular effort to attract savings deposits. In fact, total savings deposits in commercial banks at the end of 1953 amounted to only £S 3.5 million. No postal savings system exists, and savings in the form of insurance are negligible. This does not mean that savings do not accrue, but rather that they do not take institutional form and are invested directly, not through the intermediary of institutions or a capital market. Syrians generally prefer types of investments which are tangible and visible, such as land and buildings, and over which they can exercise some personal control. In the past the habit of putting savings into hoards of precious metals or even currency has also been deeply ingrained. There is some evidence, incapable of statistical measurement, that the relative importance of savings in the form of hoards has declined in the postwar period as opportunities for profitable investment have grown. Investment in corporate securities has greatly increased during this period, but only by limited groups of people and under conditions assuring them control over the corporate enterprise. Shares in industrial companies are bought and sold in an unorganized and very limited market.

Economic Growth

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483 One of the most noteworthy features of the Syrian economy has been its rapid growth over the last two decades, as indicated in Table 3. Agriculture and industry have both featured prominently in this development. The availability of idle land combined with the food shortages attributable to the war provided a tremendous incentive to an expansion of agricultural output. The area under cultivation, including fallow land, rose from about 1.75 million hectares in 1938 to 2.3 million in 1945 and has since continued to expand, reaching a total of around 3.65 million in 1953. The area actually planted to crops and orchards accordingly more than doubled during this entire period, rising from 1.16 million hectares to 2.44 million. By far the greatest part of the area put to the plow was dry farming land. According to official estimates, for example, the amount of land planted to winter wheat and barley increased from about 750,000 hectares in 1938 to 1.13 million in 1945 and 1.34 million in 1953, and the output of these cereals about doubled during the whole period. Following the war a considerable expansion of irrigation took place. By 1953 the irrigated area

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about £S 1,250 million in 1949 and £S 1,380 million in 1950 to perhaps around £S 1,600 million in 1953. Over the whole period this would indicate an increase of about 28%. Since prices in 1953 were about the same as in 1949, the rise in real terms was apparently about the same. While these estimates, based on very inadequate data, are subject to a rather wide margin of error, it is not unlikely that real national income has been rising on the average at an annual rate of 5% to 6%.

Volume of Investment

The expansion of economic activity in the postwar period has entailed a rather high level of investment (see Table 4). While accurate data are not available, the mission has made some rough estimates of gross investment in construction on the basis of building permits and building costs, and of equipment investment on the basis of imports of machinery, equipment and motor trucks. The indicated annual volume of gross private investment has apparently fluctuated between £S 160 million

TABLE 4 Gross Investment

(Million £S)

	1950	1951	1952	1953
Private investment				
Construction (housing, industrial, commercial)	122.0	116.0	127.0	138.0
Industrial machinery	20.0	33.0	28.0	30.3
Agricultural machinery	10.7	35.6	17.3	14.3
Truck transport	8.7	11.0	4.4	2.8
Sub-total	161.4	195.6	176.7	185.4
Public investment				
Irrigation	0.8	0.8	0.8	3.1
Transport and communications	8.1	8.7	6.4	10.1
Education and public health	3.4	3.4	3.4	3.9
Municipal services	12.5	17.1	17.3	22.2
Other construction, including administration buildings	1.0	1.0	1.0	0.5
Sub-total	25.8	31.0	28.9	39.8
Total gross investment	187.2	226.6	205.6	225.2

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and £S 195 million in the four-year period 1950-53. The average has been about £S 180 million. Of this amount about 70% is accounted for by all building and probably 56% by housing construction. That investment in other sectors, notably agriculture, has not been heavier is undoubtedly due to the fact that most of the increase in farm output has been achieved simply by occupying and cultivating idle land which entailed relatively little investment.

Public investment has been much more modest. On this subject the data obtained by the mission from various government agencies were conflicting. The available information, reconciled as far as possible, points to an annual total ranging from £S 25 million to £S 40 million, with the average about £S 31 million.

The total gross investment, which the mission believes has been rather conservatively estimated, is undoubtedly surprisingly high. On the average, it has probably amounted, over the four years 1950-53, to 13-14% of the gross national product. By comparison with other underdeveloped countries in Asia, this rate of investment represents a remarkable record of achievement. There is no evidence either in the balance of international payments or in the price structure that this volume of investment over the four-year period as a whole was financed by inflationary means. It was apparently financed for the most part from genuine savings, supplemented by some inflow of capital from abroad. In the immediate postwar years much of the investment was probably financed from the enforced savings accumulated during the war. Wartime money incomes were high. Commerce profited heavily from the scarcity of goods, and Allied troop expenditures in Syria were substantial. Money circulation increased sharply, but against a French franc counterpart. At the same time the shortage of goods kept down spending. Assets abroad increased, as did savings in the form of gold and precious stones. One source estimates that foreign assets, quite apart from the French franc counterpart of domestic currency circulation and savings in gold and precious stones, rose during the war by £S 325 million.[6] Part of such savings was undoubtedly used for consumption after the war, but a significant portion was probably invested at home. A substantial part of the profits earned in the postwar expansion of agriculture, industry and commerce was evidently reinvested. The business

[6] Mohammed Thome, *Le Rôle du Crédit dans le Développement Economique de la Syrie depuis la première Guerre Mondiale jusqu'à nos Jours* (Madrid, Ediciones Castilla, S.A. 1953), pp. 217-18.

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community has been "investment conscious" and has engaged in little conspicuous spending except perhaps for housing.

Predominance of Private Enterprise

A characteristic feature of Syria's rapid economic development is that it has been almost wholly due to private enterprise. In spite of frequent changes in government, private enterprise has retained a buoyant outlook and continued to expand. Manufacturing industry developed with little or no government support, except that in recent years the government has provided some financial assistance and considerable protection against foreign competition. Although the government has slowly increased its services to agriculture and may be said to have contributed to its expansion by interposing no bars to the occupation and cultivation of new land, it did not play a significant role in the great increase in output. Even the development of irrigation has been left primarily to private enterprise, which has extended the irrigated area by sinking wells and, above all, by installing pumps on river banks. Thus only 48,000 hectares are irrigated by government schemes, whereas 250,000 hectares are irrigated by privately installed pumps. In the field of transport, as already indicated, private motor carriers have assumed the burden of increased traffic despite poor public roads.

The most significant, though indirect, contribution made by the government to development has been in the field of education. Increased outlays on education account for almost half of the total postwar expansion in non-defense ordinary budget expenditures, which rose from an actual total of £S 70.9 million in 1945 to an estimated figure of £S 125 million in 1954. During this period the number of schools and pupils more than doubled. The literacy rate has probably been lifted to around 40%, which compares favorably with most Arab countries. In the field of communications the government has been active, notably in the development of the port of Latakia and in the expansion and improvement of the telephone network.

The Syrian economy has now probably reached a stage in its development at which the government must undertake a more important promotional role. It is unlikely that in the future private enterprise will be able to maintain, unaided, the past rate of expansion. The amount of idle land that can be put to the plow without significant investment has

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and provide for a number of reciprocal tariff reductions and even exemptions, and has been considering the renewal in some form of the close economic ties with Lebanon which prevailed before 1950. All the Arab countries joined in 1953 in an Inter-Arab Economic Agreement providing for tariff reductions on a considerable number of industrial products without, however, affecting other barriers to trade.

The establishment of a common Arab market will undoubtedly take time. The history of the Benelux economic union demonstrates that it can only be achieved gradually and then only if there is a full understanding among the partners of each other's problems and a willingness to make concessions and sacrifices. A single market cannot be established simply by a progressive elimination of trade barriers; it entails also a gradual coordination of those economic policies and measures which govern the conditions under which enterprise in the various countries operates. To bring national cost and price structures into line with each other and to equalize the conditions of competition, it will be necessary to harmonize, step by step, fiscal, monetary and exchange policies, the terms governing access to raw materials and equipment and the legislation regulating labor conditions and providing assistance to industry. If this can be accomplished, the possibilities of further industrial development in the Arab world are likely to be significantly greater.

Establishment of an Investment Bank

The mission attaches great importance to the establishment of an institution capable of furnishing both technical and financial assistance to industry. When industrialists have insufficient capital for investment at present, they can turn only to the government; the banks provide only working capital. As already indicated, the government began in 1949 to guarantee loans for this purpose through the Banque de Syrie et du Liban. During the period June 1949-January 1952, 18 such loans totaling £S 23.6 million were made, although by the end of 1953 repayments had reduced the balance to £S 13.4 million. This guaranteed-loan scheme was suspended in 1952 but revived at the beginning of 1954, subject to a limitation of £S 15 million on the entire amount outstanding.

For a number of reasons we believe that this method of financial assistance ought to be abandoned. Although the interest rate of 3%, which has been made possible only because of the government guarantee and the

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454 large government deposits with the BSL, is undoubtedly attractive to the borrower, these loans entail a risk of inflation, unless at the same time there are offsetting deflationary factors operating in the economy. Moreover, the extension of loans to industry calls for judgments on the technical and economic soundness of business enterprises and the exclusion of all political considerations, which is very difficult for any government. It requires close scrutiny and supervision of borrowers, which can hardly be carried out by a government agency because private enterprise strongly resists such government control.

In our opinion, a privately managed and privately owned investment institution would be in a much better position than any government agency to give industry the type of assistance which it needs at its present stage of development. We have already stressed that under present conditions technical assistance is as much needed as financial assistance. On the basis of our consultations with Syrian businessmen we are convinced that the latter would hardly accept technical assistance from the government, not only because they would have no confidence in the government's ability to provide it but also because they would not countenance the detailed government inspection of their methods of doing business which might be involved.

The technical help which the institution we propose might give would take the form both of advising existing factories and shops on improving their methods of operation and of appraising the soundness of proposed new industrial ventures. For this purpose the bank would need a small technical staff, including a cost accountant, an economist and a few engineers who could advise on plant layout, work flow, costing, requirements for new machinery and equipment and the like. The bank's investment activities would be closely related to its technical services. It could finance both new equipment for existing plants where this is demonstrably necessary to improve efficiency and reduce costs, and also new enterprises judged by its expert staff to be economically and technically feasible. The bank should, however, be paid for technical services unrelated to projects which it would assist in financing.

Although the bank's primary function would be to assist manufacturing industries, we envisage that it might also help finance the tourist industry, particularly hotels, and the purchase of machinery, sinking of wells or installation of pumps by agriculturists who might be considered as engaged in commercial-farming operations and who are not among the

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small farmers principally served by the Agricultural Bank. The bank's financing would presumably be largely in the form of loans, although its operations should be flexible enough to permit, in case of need, underwriting or equity participation. The interest rate on loans should be high enough to ensure that private capital will be invested in the bank and will for that reason have to be substantially higher than that of the BSL government-guaranteed loans. Moreover, new industrial investments in Syria should be able to earn a higher return, at least in the long run; and where the short-term return, as distinct from the long-term prospects, is likely to be less favorable, the bank could provide its financial assistance in the form of equity participation. As far as agricultural investment is concerned, most farm operators now pay a higher rate of interest when purchasing machinery on credit.

We suggest that the investment bank be capitalized at £S 15 million, of which £S 10 million might, if necessary, be paid up in installments within a few years. This capital would be subscribed by private individuals and institutions and would be matched by a contribution from the government which might take the form of a long-term advance. We believe it essential that the bank be privately owned and privately managed if it is to inspire confidence in the business community. At the same time, it will need supplemental resources from the government in order to ensure its success. The government contribution should be made on such terms that the net income of the institution would first be used to assure a minimum dividend on the privately-held share capital. Only under such an arrangement could sufficient private capital be attracted. We estimate that the bank should be able to earn an adequate return on its share capital when the amount of its investments approximates £S 15 million. In the first few years of its operations, the Bank might suffer small losses which would, however, be covered out of profits in ensuing years.

It might be argued that this proposal is not advantageous to the government. The real test, however, is whether the institution would make an important contribution to the economic development of the country which the government is anxious to stimulate. We believe that the proposed bank could play an important role in stimulating and directing sound private investment. In addition to mobilizing domestic private capital, it could become the means for attracting foreign capital to Syria. A number of Asiatic countries have perceived the advantage of government-assisted private investment institutions. Thus, India has organized an investment

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454 corporation on a basis similar to the one we recommend, and Pakistan is contemplating the establishment of such an institution.

We have little doubt that the suggested bank would find ample opportunities for investment. While there is no absolute assurance that private capital can be found for the bank, our preliminary exploration in Syria warrants some optimism on this score. Commercial banks might well subscribe a substantial part of this capital, and the balance could probably be obtained from private individuals and business concerns.

While the bank would not make loans for working capital, it might indirectly make it easier for companies to obtain working capital from the regular commercial banks. The mission found that a number of industrial enterprises do have difficulty in obtaining sufficient working capital, particularly to finance heavy seasonal purchases of such agricultural raw materials as cotton, oilseeds, and fruits and vegetables for canning. The proposed bank might explore the possibility of financing the construction of bonded warehouses in Damascus and Aleppo where industrial enterprises could store raw materials and even finished goods in such a way as to furnish ample security for additional commercial bank credit.

Vocational Education

874 464 While appropriate technical and financial assistance can do much to raise industrial efficiency, the better training of labor is also important. At present vocational education is seriously inadequate. There is an urgent need to expand and improve vocational schooling so that it will effectively serve the requirements of industry and business and will be properly related to in-plant training. Specific recommendations on this subject are made in a subsequent chapter on education.

Projected Oil Refinery

471 382 With the exception of one ill-starred venture in which it went into partnership with private capital, the government has wisely left the ownership and management of manufacturing enterprises to private initiative. We are strongly convinced that this policy should continue to be followed. During the last few years it has been proposed from time to time that the government depart from this rule by establishing and operating a petro-

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652 advances made by the Exchange Office under international payments agreements; (4) Treasury notes that might eventually have to be remitted by the government to cover its subscription to the IMF and IBRD; and (5) Treasury certificates, bills and bonds issued or guaranteed by the state up to a limit of £S 60 million, provided their issuance is authorized by law. The operations contemplated under (1), (2), (3) and (4) would not apparently lead to the creation of additional money, except to the extent that advances might have to be made to the Exchange Office to finance a surplus of local payments under international payments agreements. Syria has, however, no payments agreements at present, and the problem is not likely to assume considerable magnitude in the future. Thus only under (5) could a real new money-creating debt develop, i.e., to a total of £S 60 million.

These provisions, which have already become effective, impress us as a salutary restraint on inflationary deficit financing. We urge, however, that the draft legislation already prepared for the consolidation and appropriate management of the direct and indirect state debt be enacted as promptly as possible.

Government securities must therefore be floated on terms attractive enough to ensure their sale to customers other than the central bank. Just what the terms should be can be only established by a survey of the potential market (commercial banks and individuals) conducted with expert advice. In any event it would be advisable to err on the generous side. Treasury bills would probably have to carry interest rates of at least 2½% and government bonds from 6-7% depending on the relative attractiveness of other investments and the maturity of the issue. Judging from the experience of the Port of Latakia, which sought to market shares with a guaranteed return of 5%, the latter rate is likely to be too low, at least initially. Long-term bonds are almost certainly unmarketable. At the beginning the maximum maturity would probably have to be 3-5 years. This is all the more true because commercial banks would presumably be the principal investors until the public became more accustomed to the idea of investing in government securities.

652 454 In most countries, savings are in large part mobilized by such institutional means as banks, special savings banks, insurance companies, and social insurance or provident funds. These institutionalized savings are then in turn largely invested in government bonds or other bonds. In Syria, as we have already pointed out, there are no institutions other than

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the regular banks which are capable of mobilizing funds in this way. Thus one important element in the market for bonds is lacking.

Institutional savings obviously cannot be developed within a short period. For the longer run, however, it is important that steps be taken in the next few years to stimulate such savings. Among the steps that the mission would recommend are the following:

1. The government should start paying its government servants, at least those in the upper half of the civil service grades, by check, so as to familiarize them with the use of banks and thus indirectly encourage them to make deposits in banks. Such a measure, though not of great importance, could at least be quickly implemented.

2. The Council of Money and Credit should canvass with the commercial banks the possibility of stimulating the development of savings and time deposits. Among the measures that might be discussed for adoption are (1) the possibility of establishing a greater differential between interest rates on current deposits on the one hand and those on time and savings deposits on the other without necessarily increasing the over-all interest burden of the banks; (2) the possibility of attaching some lottery feature to time and savings deposits (this is done in some countries such as Japan); and (3) the inauguration of a joint government-bank campaign designed to show how deposits in banks for given periods can "grow."

3. The government should look to the gradual introduction of a postal savings system. Such a system might be inaugurated on a trial basis in one of the larger cities. It would necessitate a publicity campaign in which the cooperation of teachers, religious leaders and the Chambers of Commerce, Industry and Agriculture should be enlisted.

4. The government should take various measures to encourage savings through insurance. Among these are (1) the drafting, with expert foreign assistance, of a modern insurance law designed to ensure that investors in life insurance are protected to the maximum extent possible and to lay down some stipulations regarding the portion of assets representing Syrian business that must be invested in Syria; (2) conferences with representatives of insurance companies doing business in Syria and neighboring countries, designed to explore the steps which might be taken to increase the volume of Syrian individual life and group insurance business through such measures as better training of agents and subagents, publicity campaigns, etc.; (3) exploration, with the help of ILO, of the possibility of introducing some forms of social insurance, particularly accident and

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old age insurance, on a modest scale in Syria; and (4) enlisting the support of Moslem religious leaders for insurance in the form of a pronouncement that the taking out of insurance is not contrary to Koranic teachings. Regarding the latter, it should be noted that such a pronouncement was obtained in Egypt quite some time ago. Egypt is one Moslem country where life insurance has slowly developed. There the face value of life insurance policies has increased from £E 30 million, with premium payments of £E 1.25 million, in 1942, to £E 67.7 million, with premium payments of £E 3 million, in 1951.

Since rapid results cannot be expected from measures to foster "institutionalized savings", the question arises whether the government can be expected to find a market for its securities under the conditions to be anticipated over the next six years. We have had occasion to point out that the considerable savings in Syria flow for the most part directly into investments of various kinds without the intermediary of a market, and that tangible investments, particularly in real estate, are generally preferred. At the same time the success of industrial companies in the postwar period and the tendency toward greater dispersion of their shares point to an increasing willingness to invest in securities. Moreover, as we have indicated elsewhere, private investment opportunities may not increase in the future at the same rate as in the past. The provision of additional agricultural credit through such a public institution as the Agricultural Bank may also displace some private funds now devoted to such financing. In theory, therefore, private funds may become available for investment in public securities. It is always possible, of course, that they may go, instead, into hoards or increased consumption. However, there has been a marked tendency in Syria to save and invest, and if savers and investors can be persuaded that government securities offer an attractive return and are safe, they might be expected gradually to venture into public investment.

A rate of return of 6% on government bonds might be attractive, at least to those who have been investing in building, where the return has been comparatively modest and where it might be expected to decline in the future. Lack of confidence in the government, in its determination to repay and in its use of public funds, is no doubt the most important obstacle. Such confidence is likely to be established only gradually. The government may already have contributed somewhat to this confidence in the last two years by stabilizing the value of the Syrian pound in relation to other currencies and by maintaining internal financial equilibrium. Special bond

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issues for specific projects which have impressed the business community as specially worthwhile may be more successful than those intended to raise funds for general government purposes.

During the period when full confidence in the government is lacking, people may be reluctant to "freeze" their funds in government securities. In the absence of a market where securities can be readily traded, such funds do tend to be frozen until the maturity of the government security. This difficulty might be overcome by providing that government bonds, even though issued for a stated number of years, will in principle be redeemed at stated prices at intervals of six months. If the bonds are originally issued on a discount basis and the redemption prices fixed in such a way that the implied interest rate increases the longer the bond is retained, a definite incentive to longer retention is provided. At the same time the investor has the assurance that he will always be repaid at short notice. Such a bond may also be appealing for bank investment in view of its liquidity. For the government it admittedly has a disadvantage in that the volume of redemption payments cannot be anticipated. In emergencies the government can, however, borrow from the central bank to meet the redemption payments. Such recourse, except for temporary purposes, is not to be recommended, but if the very possibility of prompt repayment strengthens confidence, it may in the longer run make unnecessary net borrowing from the central bank to meet redemption payments. To increase the attractiveness of investment in government bonds, the incorporation of a lottery feature may also be considered.

Any prediction as to the amount of government securities the "public" may be expected to absorb is exceedingly hazardous. It might be noted here that even if only 2% of gross private investment in 1953 (which was about £S 185 million) were to be diverted annually to investment in government securities, this would amount to a total of £S 18.5 million over five years. It may not be unreasonable to expect that over this period public purchases of government securities might range between £S 10 million and £S 20 million. Some underdeveloped countries such as India and Ceylon have been surprised by the unexpectedly favorable response of private investors to issues of government bonds.

In a number of underdeveloped countries commercial banks have been persuaded to finance a substantial amount of public indebtedness. Syrian commercial banks might well become the major buyers of government bonds; this may or may not be economically advisable, depending on the

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The manufacture of silk and artificial silk brocade, mainly as a luxury export, employs only a few mechanical looms; hand looms are still in the majority. The existing capacity seems to be adequate to meet the demand which, because of the high price of the goods produced, is bound to be fairly restricted. Trade figures, however, reveal a trend towards increasing exports of the less expensive types of cloth made from cotton or rayon or a combination of both materials. Recent export and import figures are given in the Appendix.

For one of the factories in the new and continuously expanding rubber boots and shoes industry, most of the machinery (except the cutting and sewing machines) was made in small local engineering shops and assembled at the factory by the company's own labor. It is somewhat primitive, although the goods produced are of reasonable quality. The installation of modern foreign machinery would considerably increase production and reduce labor costs. This industry is protected by an embargo and has a small export trade with surrounding countries. Shortage of capital seems to be the main impediment to faster modernization.

Capital

The original capital of most of the larger Syrian industrial enterprises was put up either by a single family or a small partnership and in general the expansion reflected the amount of earnings retained in the firm. Even in the rather exceptional case in which an enterprise was corporate in form (*société anonyme*), it usually maintained in substance a privately owned and privately financed character.

This pattern of organization and growth is equally true of the majority of industrial firms created since 1945, among them the largest in Syria. Some of these began on a large modern scale, requiring both heavy investments and several million £S of original capital for their financing, and although generally incorporated with a certain spreading of stock in some cases, the company much more often was owned or largely controlled by one or a very few persons. This situation reflects the prevailing distribution of wealth, the reluctance to participate in business without control, the unfamiliarity with stock, the lack of a well organized capital market, particularly for equity investments, and last but not least the preference for large and quick returns on savings, for which there were, at least in the

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first postwar period, ample opportunities outside industry (trade, agriculture and real estate).

The main source of the capital which founded these new industries was commercial profits accumulated during the war by Syrians in and outside Syria; a certain amount of Lebanese capital seems to have been contributed. Many companies were able to operate with the capital originally subscribed, but in some cases the paid-up capital was mainly or entirely absorbed by land, buildings and equipment, leaving little or nothing for working capital. The mission encountered several instances in which working capital had been supplied by banks on an overdraft basis at a rate of 5% to 7%, but mostly for rather limited amounts only. In a number of cases, however, when larger amounts were required, industrial firms had recourse to a scheme of government-guaranteed industrial credits introduced in 1949. Although it was reserved for industrial corporations and thus did not cover the needs of the large majority of Syrian industrial enterprises not organized in that form, it has been very helpful to the companies which were able to benefit from it while passing through a difficult initial period of inadequate financial resources. Such credits were made available by the Banque de Syrie et du Liban for three years (now renewable for an additional five years) at the low rate of 3%.

Most Syrian industrialists, hard working and thrifty as they are, prefer to forego paying dividends rather than remain indebted or incur new indebtedness with banks. In most cases loans for working capital are paid off as soon as possible; new machinery is generally purchased with plowed-back earnings and often reserve funds are formed with a view to making further extension or modernization. In several instances the originally subscribed capital has been increased by issuing new stock to the old shareholders. The government-guaranteed loans, on the other hand, are so exceptionally attractive that in the difficult circumstances at the time the plan was initiated there was a great readiness to apply for them and later to have them extended. However, during the last few years the government has become more reluctant to give this scheme a wider application. The total amount which can be guaranteed is now limited to £S 15 million. At the end of 1953 loans outstanding amounted to £S 13.4 million.

On the whole, the development of Syrian industry has been on a sound basis from the financial point of view. True, one frequently finds considerable amounts of loan debts on the balance sheet of industrial corpora-

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tions; these, however, often represent contributions to working capital by members of the owner-family or an inner circle of controlling shareholders who for various reasons prefer this technique to accepting additional stock. This may be an unfortunate situation from the legal point of view, although in practice it does not seem substantially to weaken the continuity of the capitalization. The government-guaranteed loans may be subject to criticism, particularly with regard to the applicable interest rate, which is much below that reasonably to be expected in a country where capital is relatively scarce. However, thanks to the provision that in each case these loans may not exceed half the paid-up capital of the borrower, they have not dangerously affected the financial structure of the companies concerned. Yet the mission feels that the entire system of government-guaranteed industrial loans financed by the BSL does not at this stage provide an appropriate and adequate solution to the problem of supplementing the traditional means of financing industrial development.

Although the larger gaps in the main fields in which conditions for modern industrial production are reasonably favorable have either been filled or are rapidly being filled, the industrialization movement is far from being exhausted. All the evidence indicates that it will continue to spread, though probably at a slower rate than in the years immediately preceding 1952 and along more selective lines. With the limits of the home market within reach or already reached, further development of existing industries will depend largely on their success in attaining a higher degree of efficiency and reducing production costs. In view of these trends and requirements the mission is of the opinion that a specialized credit institution is needed to furnish both technical assistance and industrial banking facilities, to the extent that these are presently lacking, and to provide a firmer basis for further investment financing. A more detailed proposal for such an investment bank will be found in the Main Report.

Labor

According to an official estimate, the number of workers employed in Syrian industry (excluding electrical productions, commerce, etc. and enterprises employing only family members) is approximately 70,000. In some industries, particularly in the textile sector, the supply of skilled labor is barely sufficient for present needs, but unskilled labor is generally

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The recommendations of the mission with regard to agriculture and animal husbandry, including those concerning land tenure and irrigation, would, if accepted, open significant new perspectives to the farmer and farm laborers and tend to check the drift from rural areas. If it were possible to spend more on irrigation than has been recommended, the trend could perhaps be reversed. It is not likely, however, that the growing labor supply can be absorbed and unemployment avoided without further industrialization. Even on the highly optimistic assumption that migration towards the towns can be halted, Syria must contend with such factors as the natural increase in the industrial labor population and the gradual shift from handicraft to mechanization with the consequent release of manpower.

Although estimates in this field are particularly hazardous, the mission suggests that under the most favorable circumstances Syria will have to create at least 20,000-25,000 new industrial jobs during the next six years to keep its industrial labor market in reasonable balance.

Limiting Factors

It is often contended in Syrian official and business circles that shortage of local capital rather than lack of confidence is the principal factor limiting further industrialization. Assuming that this is so, it would follow that to advance development Syria should make a strenuous effort to create attractive conditions for foreign capital as a supplementary source of industrial financing. This conclusion does not seem to be generally acknowledged. At least the nationalization of foreign-owned public utilities without settling the matter of indemnification of their proprietors, and the regulations with respect to foreign companies working in Syria, do not indicate its acceptance.

There is, however, room for some doubt whether scarcity of capital should be considered as a major factor limiting development of Syrian industry. During the past eight years, investments in industry have supplied the country with an industrial capacity capable of meeting most of the need for manufactured articles, based on local primary production, which the population can afford; indeed, as already pointed out, in several branches of industry there is excess capacity. Generally speaking, Syrian industry appears to have attracted substantial amounts of capital. Even taking into account the fact that the sources of industrial investment

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capital were enriched by accumulated war profits and repatriated capital, it seems likely that under generally favorable economic conditions and with improvement in the mechanism for mobilizing industrial capital, the supply of such capital will be adequate for a reasonable expansion.

The amount of capital required should not be overestimated. Some branches of industry are overequipped and could employ considerably more workers before reaching full capacity. In others, where there is a better balance between equipment and output, internal savings can probably go a long way toward furnishing the necessary capital for improvement and extension of the existing plant. For the near future, with perhaps one or two exceptions, the mission does not see promising prospects for new large industries requiring heavy investment. The best possibilities for expansion may rather be found in the field of light industries which can start on a relatively modest scale. It is for these industries that the proposed investment bank should be particularly useful.

The factors limiting further industrial expansion which the mission considers to be of real significance are: (1) Syria's natural resources; (2) the absorptive capacity of the Syrian market; (3) the competitive strength of Syrian industry as a supplier of more and a broader range of manufactured goods both at home and on accessible foreign markets; and (4) the government's contribution to creation of stronger incentives and better possibilities of enlarging foreign outlets.

1. Syria's natural resources are mainly agricultural. Investigations of possible mineral and oil resources have produced unsatisfactory or negative results. Syria has no natural advantages with regard to power and transportation facilities. The country has not achieved a reputation for high quality production except of some limited luxury goods. Some of these limiting factors, particularly the inadequacy of power and transportation and the human qualifications, can certainly be overcome but only by considerable investment in so-called national overhead, the rate of which is limited by the increase of the national income and the share of this income which can be devoted to industrial investment.

2. Syrian industry depends to a very large extent, sometimes exclusively, on the home market. Given the size of the population and the fact that for the bulk of industrial goods imports have already been replaced by local manufactures, the possibilities for expansion of industrial production depend largely on progress made outside the industrial field in raising the volume of purchasing power of the largest number of people. The relative

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457 panies. It was replaced by a fixed rate to approximate closely to the prevailing free rate.

International Trade

439 In 1951 Syria had an adverse balance of trade of £S28 million but this was probably counterbalanced by the income from certain invisible exports which do not come within the knowledge of the official statisticians. The year 1951, however, was a particularly bad one for agriculture. In normal years Syria can expect to have a favourable balance of international trade; in 1950, for example, the country had a considerable trade surplus and by 1952 the large deficit of the previous year had been wiped out. Syria's best customers are usually Lebanon and Iraq (Lebanon's inter-Middle Eastern trade is higher still) but there is also reciprocal trade with Britain, France, Italy, and the United States. Trade with Western Germany has recovered and is now quite important although it is threatened by Syria's attitude to the German reparations to Israel.[1] Syria's main exports are agricultural; raw cotton has recently become the most important. Her chief imports are machinery, oil, and textiles.[2]

Up to 1947 almost all the external trade of Syria was done not only through Beirut but also by Lebanese firms; however, since then, Syrian merchants have set out to show that they can deal directly with the outside world. The Government are encouraging importers and exporters to use Latakia rather than Beirut and legislation aims at preventing foreign businesses from being represented in Syria by foreigners. This has the effect of cutting out the middleman in Beirut, but it also makes it very difficult for British, American, and French firms to have sufficient control over their affairs to encourage the investment in Syria of foreign skill and foreign capital. In 1951 some Belgian and French companies were nationalized and the commercial climate was unfavourable to foreign investment; but during 1952 Colonel Shishakli declared that the Government would welcome foreign capital and enterprise provided that they did not encroach on Syria's national sovereignty and interests, and towards this end exchange regulations were to be simplified and greater freedom was to be given in the transfer of capital.

Development Schemes

426 Interest rates in Syria and Lebanon are very high and even
454a sound borrower may have to pay from 25 to 50 per cent

[1] See table 4, p. 503 below. [2] See ibid.

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interest per annum. The Syrian private capitalist expects very large returns and the foreign private capitalist requires more security than is obtainable in the Middle East; thus the development of Syria must be financed either by the Syrian Government or by an international agency. Syria is one of the few countries to have refused American Point Four aid on principle, but she is a member of the International Bank for Reconstruction and Development and this organization has been studying some of the development schemes listed below.

1. *Drainage of the Ghab marshes.* Nearly 100,000 acres of land can be irrigated from the excess water of this area to improve agriculture and public health, and plans are well advanced.

2. *Euphrates barrage,* to provide 100,000 kws. of hydro-electric energy for irrigation and industrial needs. With this power it is hoped to irrigate half a million acres.

3. *Yarmuk and Barada rivers.* Hydro-electric schemes to give power to Damascus and the Hauran.[1]

4. *Latakia port.*[2] There have been complications over the award of the tender for this work, and construction had not effectively begun at the beginning of 1953.

5. *Khabur river.* Irrigation scheme for 22,000 acres.

6. Improvement of rail and road communications from Latakia to the hinterland and establishment of a network of all-weather roads in the Jezira.

7. *Rouj marshes.* Drainage to irrigate about 8,700 acres has already commenced.

If agreement can be reached to implement some of these schemes not only will Syria benefit but also the Arab refugees from Palestine may find employment and even homes.

(*b*) Lebanon

Much that has been said about Syria also applies to Lebanon and, to avoid repetition, only points peculiar to Lebanon are here outlined.

Agriculture

The table on p. 488 above gives the approximate division of the land in cultivable and uncultivable areas and the estimated acreage; the crop and yield of the main agricultural products are given in the following table.

[1] An agreement with Jordan was signed on 7 July 1953, but work has not yet begun.

[2] See above, p. 487.

LAND TENURE

241 Wheat yields are lower than the average for Syria, averaging 4 hundredweight to the acre.

427 Almost the whole of the estate is let to share-tenants who are supervised by an agent, the landowners themselves rarely visiting the estate. The share of the crop taken by the landlord is 25 per cent on non-irrigated land and 42½ per cent on irrigated land. These shares are more favourable to the tenant than is usual, because it is desired to attract more labour to the estate which sixty years ago was quite uncultivated. As elsewhere, the tenants have no leases but live in fear of eviction.

The tenants are divided into five classes:[1]

1. Large tenants cultivating 6 feddans (225 acres) of non-irrigated land: 4 in number.

2. Medium sized tenants cultivating 4½ feddans (168¾ acres): 4 in number.

3. Small tenants cultivating 3 feddans (112½ acres): 60 in number.

4. Small tenants cultivating irrigated land and with an average area of 18 acres: 100 in number.

[464] 5. Wage labourers, who form the majority of the villagers.

484 Of these classes, only the small groups of large and medium-
454 sized tenants can live well, in the sense that the output of the farm suffices to cover the essential needs of the family and also
√11 provides a small cash surplus. The surplus is used to buy gold pounds and jewellery. But the other groups cannot achieve even a sufficient standard of food consumption. The standard consumption of wheat (barley in the case of the very poor peasants) is 14 kilogrammes of grain per month; to achieve this level it is necessary to crop about 45 acres. Thus with the present system of cultivation, the class of small tenants, who cultivate an area of 112 acres and would appear to have quite sufficient land, cannot attain the minimum because only one-third, 35 acres, can be cultivated owing to shortage of live-stock.

√11 These small tenants, who are typical of the farmers in the great plains of Syria, are very poor, living in one- or two-roomed
[342] mud huts, and when there is only one room, sharing it with their animals.

[1] It must be said that the feddan in Syria is a variable measure and here is equivalent to 37½ acres.

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a loan directly from another government. This attitude is illustrated clearly in the refusal of Syria to sign an agreement with Point Four.

A loan from an international body is another matter, and the country is seeking a loan of several million dollars from the International Bank for development of transportation, particularly roads in the Jezira, and port facilities at Latakia.

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Without a large-scale public works program, only minor improvements can be made to the existing system. However, opportunities exist for increasing production through private investment.

The good crops of 1950, sold at exceptionally high prices, resulted in high profits and the accumulation of considerable capital. The hope of continued high profits caused much of this capital to be re-invested in equipment and farm improvements. The same incentive also brought out new capital which never before had been invested in agriculture. Judging from the number of tractors, combines and accessories, and irrigation pumps purchased during 1950 and 1951, the investment in agricultural equipment in these two years exceeded the total up to that time. Unprecedented expenditures for general farm improvements also were made, an exceptional step in a country without a history of investment in agricultural development beyond the acquisition of land and a few simple facilities. The capital base has been small. Production has about equaled consumption. There has been little surplus for savings. The few families with capital have used their funds in other ways, seldom for agriculture. But the experience of 1951 was not encouraging for long-continued investment in agricultural development. These investments were costly, many farmers paying double the United States prices for equip-

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These farmers are typical of those in northern Syria. All the tenants of one landlord usually live in villages like this one near Aleppo. Villages vary in size from a few hundred to several thousand depending on the size of the farm.

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COTTON IN SYRIA

ment, and the investors, inexperienced in farming and unequipped to deal with adverse weather, lack of water, and heavy insect infestation, obtained low yields. Many lost their own capital and borrowed money. 454 241

Some investors, who realize that their only chance of coming out on their original investment is to continue their operations and even to make additional investments, plan to expand operations. Future investment naturally will depend on current earnings which will be determined by production and world market prices.

Farmers who may be in a position to continue investing in agricultural development out of their own capital, however, will be a small minority. The need for credit will be great.

Limited credit usually is given to tenants by the landlords during the spring and summer, but most farmers need more. In the past, additional production credit has been extended largely by the merchants and moneylenders at rates from 15 to 50 per cent annually. A few large landlords borrow money from banks at rates as low as 7 and 8 per cent, but only against excellent securities. Interest rates to the tenants who have less collateral are usually higher. Merchants are discontinuing the practice of buying cotton before the crop is made at prices from 50 to 70 per cent of the future market price because in many cases the farmers do not make enough cotton to fulfill their contract. 452 426 [455]

The government has sought to meet the need for credit by creating an agricultural bank, but the capital is limited and size and volume of loans are small. In 1951, for instance, the bank loaned a total of only $5 million to 57,000 cultivators. Private groups are said to have loaned as much on cotton in the Jezira alone. 652 452

LAND TENURE

Land available for cultivation is plentiful, but confused titles, excessive concentration of ownership, and insufficient or restricted use of the state domains hamper development. 423

The government has a major interest in agriculture and the tenure problem. The Ministry of Justice reports that 23 per cent of the farm land is owned by the state and in some of the larger farming areas the percentage runs as high as 69 per cent. There is also a heavy concentration of land in large units owned and operated by a few wealthy landlords, with 29 per cent of the farm land in farms over 250 acres. Most of the large farms in the old agricultural areas are operated on a tenancy system, but many of the farms now being established in the new areas of the Jezira are operated on a day-wage basis with mechanical equipment. This is especially true of wheat farms. A strong middle class of farmers owns about one-third of the land in farms from 25 to 250 acres, and many of them cultivate their land with the help of tenants. Only 15 per cent of the farm land is owned in lots less than 25 acres. 423 471 241 [427] [464]

In an effort to encourage landownership, stability of tenure, and an interest in improvement of the land, a law was passed recently under which state lands are to be sold on long-term, easy-payment plans to landless farmers with a limit of 123 acres to a farmer. The plan was designed especially to settle the nomads. The principal areas concerned are the state domains in the valleys of the Euphrates and Kabur Rivers, which were un- 425 471 311 [164]

433 No over-all figures on the increase of capital, output or employment are
472 available, but the following data are indicative. Between 1945 and 1953,
454 inclusive, a total of £S 70.7 million was invested in thirty-seven industrial joint-stock companies; of this £S 53.1 million was invested in 1945 and 1946. 1/ A considerable amount was also invested in unincorporated enterprises. Sales of electricity to industry increased from 15 million kilowatt-hours in 1947 to 28 million in 1951, 36 million in 1953 and 19 million during the first half of 1954. Imports of industrial machinery and equipment amounted to 9,100 tons in 1950, 19,500 in 1951, 10,800 in 1952 and 12,000 tons in 1953, with an aggregate value of £S 200 million. 2/ Table 51 shows available information on the principal Syrian industries.

433 The textile industry is by far the most important, as regards capital
288 invested, employment and value of output. The rapid expansion of cotton growing led to an increase in the number of cotton ginneries, from thirty in 1945 to 110 in 1953. Cotton spinning began in 1933; by 1939 there were 10,000 spindles and by 1954 some 92,000 with a capacity of 12,000 tons of cotton and rayon yarn. Output of cotton yarn rose from 1,700 tons in 1944 to 5,500 in 1950 and 6,600 tons in 1953; that of rayon yarn from 800 in 1950 to 1,200 in 1953; there was a further increase in 1954. Small factories also produce 40 tons of woollen yarn and 16 tons of silk yarn. Mechanical looms increased from 1,500 in 1939 to 5,500 in 1953; there are also 6,000 hand looms. Output of cloth, knitted goods and hosiery is shown in table 51. Dyeing and printing are done in well equipped factories established after the Second World War. The textile industry meets local requirements in most branches and provides an export surplus.

433 Food processing industries form the next most important group. A large-scale
258 sugar refinery started production in 1950, on imported raw sugar; its output rose to 30,000 tons in 1953, of which 23,000 were from imported raw sugar and 7,000 from locally grown beets; output in 1954 was about 38,000 tons. It also produces 1,000 tons of alcohol and some starch glucose as a by-product. The refinery, which fully meets Syria's demand, has not yet reached its full capacity. The vegetable oil industry produces, by means of modern presses established after the war as well as older hand presses, some 7,000 to 12,000 tons of olive oil, about 6,000 to 8,000 tons of cotton-seed oil and some 2,000 to 4,000 tons of other oils. Other important food and beverage industries include the making of biscuits
655 and macaroni, oleomargarine, confectionery and chocolates, and also brewing and canning. The tobacco industry is a State monopoly. 3/

1/ Of the total, £S 23 million was accounted for by six textile companies, 13.4 million by four food processing companies, 10.5 million by three vegetable oil and soap companies, 9.0 million by a cement and building materials company, 8.0 million by a glass and porcelain company, 3.3 million by seventeen electric power companies and 3.5 million by five other companies.

2/ Data from Ministry of National Economy.

3/ The Government took over the tobacco monopoly from a concessionary company in 1951, paying £S 2.5 million as compensation.

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Finance and public finance

The post-war period witnessed some important changes in Syria's monetary and banking system, in its foreign exchange system and in its public finances. The large increase in production, investment and commerce noted above had its counterpart in the development of the banking system 1/ and expansion of the money supply (see table 10), most of which has taken the form of bank deposits.

This expansion of the money supply in the post-war period has not been matched by a rise in prices. Between 1945 and 1949 the trend was downward. The discontinuance of Allied military expenditure, together with a sharp increase in the import of surplus, led to a sizable deficit on current account. 2/ Moreover, the 1945 and 1946 budgets showed a surplus, and although the 1947 and 1948 budgets closed with a deficit the amount involved was small. Investment remained at a low level. The Arab-Israeli war led to a large budget deficit in 1949; this was, however, offset by the very low level of investment and the huge import surplus. The index of retail prices of twenty-two essential commodities in Damascus fell from its peak of 831 in 1945 (1938 = 100) to 478 in 1949. 3/

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During the period 1950 to 1954, on the other hand, prices rose. The large-scale investment in cotton, and the sharp increase in the quantity and value of exports of cotton and cereals, which led to a position approaching equilibrium in the balance of payments (see table 53), raised incomes. Subsidiary factors were pipeline construction, high building activity, 4/ and small budget deficits. The rise in import prices, aggravated by hoarding and speculation in 1950 and 1951, also played a part. The rise in prices remained, however, small in scale. The index of wholesale prices of raw materials in Damascus, in which cotton has a heavy weight, rose from 100 in 1949 to 111 in 1950 and 136 in 1951; the fall in cotton prices led to a drop to 119 in 1952 and 110 in 1953. Improved cotton

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1/ Foreign banks account for the greater part of banking activities in Syria; in recent years several banks have opened branches in Syria and existing banks have set up new offices in the smaller towns. In the first half of 1954 seven new banks, mostly Syrian or Lebanese, were established, bringing the total to seventeen. The country is still, however, inadequately provided with long-term credit for agricultural and industrial development, a gap that has been only partly filled by the Government-owned Agricultural Bank and Government loans to industry (see above).

2/ It is difficult to distinguish between Syria's and Lebanon's shares in the trade of the customs union, but there is no doubt that Syria had a large import surplus. This was not covered by such receipts as revenue from petroleum companies and remittances sent by emigrants.

3/ Ministry of National Economy, Statistical Abstract, 1953. There was no index of wholesale prices in Syria prior to 1949; the wholesale price index in Beirut fell from its peak of 1,038 in 1945 (1939 = 100) to 641 in 1949.

4/ Authorized floor space for new buildings in Damascus increased from 56,000 square metres in 1945 to 166,000 in 1949, 209,000 in 1950, 162,000 in 1951, 210,000 in 1952 and 265,000 in 1953.